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ECONOMIC COMMISSION FOR LATIN AMERICA
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REPORT ON
MISSION TO MONTSEERRAT

Prepared by
Max B. Ifill
Regional Economic Adviser

REPORT ON MISSION TO MONTSERRAT

Origin of Mission

1. At the request of the Montserrat Government the Expert visited that island from 24 - 30 October 1976.

Terms of Reference

2. To examine progress made in preparation of a Five Year Development Plan and advise accordingly.

Procedure Adopted

3. The Expert read through drafts and re-drafts of submissions from various Ministries, minutes of the Development Committee and the Draft Development Plan which had been prepared on the basis of sectoral submissions. He held discussions with the Chief Minister, Mr. Austin Bramble, Senior Civil Servants and the UNDP Tannery Expert by whom he was taken on a tour of the buildings for the Leather Tanning Factory. (See Appendix I).

State and Nature of the Plan

4. The final correspondence from the Economist who prepared the Draft Plan to the Chief Minister, states that it was incomplete, and pointed out what was required for its completion. (Please see Appendix II). The Expert is of the opinion that the defaulting ministries should be requested early to submit their drafts for inclusion in the Plan.
5. Chapters 2 and 3 on "Background and Problems of the Economy" and "Population and Manpower" highlight the main economic problems and constraints:

- i. The dramatic fall in contribution of the Primary sector to the GDP - from 41% in 1961 to 14.7% in 1975.
- ii. The relatively small increase in the contribution of the Secondary sector to the GDP - from 9.7% to 13.7%.

- iii. The striking increase in the contribution of the Tertiary sector to the GDP - from 49.4% in 1961 to 71.6% in 1975 - with Government's percentage rising from 27 to 40.
- iv. An estimated unemployment level of over 40% of the labour force.
- v. The heavy dependence of the economy on budgetary grants from the U.K. Government and on foreign personal remittances.

Chapter 4 then presents a set of goals, all of which are eminently desirable. The rest of the plan shows financing perspectives and sectoral levels of expenditure which it is felt are necessary to achieve these goals.

6. There are certain disturbing features about the remaining chapters:

- i. The economic constraints outlined in Chapter 2 did not seem to dampen the planners' vision of the capacity of the economy to absorb significantly increased injections of capital expenditure e.g. agriculture, housing and lands from EC\$1.2 million in 1972/1976 to EC\$7.8 million during 1977/1981, and industry EC\$0.9 million in the former period to EC\$6.9 million in the latter.
- ii. Estimated capital expenditure, most of which will be undertaken by the Public sector with overseas finance, is in excess of EC\$28 million, but projections of revenue, estimate receipts of only EC\$6.3 million in 1981. This sum is EC\$2 million below estimated expenditure for 1976. What this in fact means is that Government takes as given its dependence on foreign sources of budgetary financing both for existing and future recurrent expenditure. This is not in keeping with the goal of "development of self-reliance" --- "within the economic and financial sources available". An observer is forced to ask: should the Public sector undertake such heavy capital expenditure? If the reply is in the affirmative, then the vital question is: when according to its planned programme does revenue begin to cover expenditures?

iii. Capital expenditure does not necessarily result in increased production, particularly in the agricultural sector, therefore the strategies to achieve such production are of vital importance. With the history of land settlement programmes in the Caribbean it is not sufficient to say "The strategy to improve agricultural production during the planning period is through the purchase of estate lands to be redistributed by means of a land settlement programme". While the objectives of agricultural policy are commendable, their achievement depend more on human than financial resources and the plan leaves one in doubt about the awareness of the planners of the importance of mobilizing, training and involving the human element.

7. The plan seems therefore to be mainly an exercise in desirable public capital expenditure without taking into consideration existing financial constraints of the Government and how these constraints can possibly be overcome by increased revenues which would meet present liabilities and cover future ones arising from new investments.

Instead of viewing the exercise as a planned approach to economic expansion, therefore, it would be better to regard it as a range of broad perspectives for possible capital financing and investment. It should be seen more as a reference document for future growth than as guidelines for action.

Financing the Proposed Plan

8. The desirable fiscal situation would be that total revenue should be sufficiently large to cover recurrent budgetary expenditure and leave a surplus to help finance proposed capital expenditures. It needs to be borne in mind too that capital expenditure in any given year generates some recurrent expenditure in subsequent years.

9. Two diagrams in Appendix III have been designed to put the financing position in bold relief. The levels of proposed expenditure curves for 1977-1981 will be higher when the Ministries of Education, Health and Welfare submit estimates of capital and recurrent expenditures for the plan period. Figure 1 shows the relationship between Total Tax Revenue and Recurrent Expenditure in 1972-1976 with projections to 1981

for these two items as they derive from the proposed plan. Note that:

- i. Actual Recurrent Expenditure was in excess of Actual Revenue in 1972-1974. The gap which was met by British Grant-in-aid widened over the 1972-1974 period.
- ii. Estimated Revenue rose in 1974-1975 but so too did Recurrent Expenditure, so the island still had to rely heavily on Grant-in-aid. During 1975-1976 both variables are estimated to have remained at about the same level. What modifications there might be in this relationship will not be known until the Actuals are available.
- iii. Projections for 1976 to 1981 developed from estimates for the previous period show recurrent expenditure rising at a steady rate. Revenue on the other hand falls in 1977 and only regains the 1976 level in 1980. Though it rises in 1981, the gap between tax revenue and recurrent expenditure at the end of the plan period will be much greater than at the beginning. Either revenue has to be increased or expenditure curtailed, or possibly both variables have to be adjusted in order to bring at least the recurrent budget into balance.

10. In Figure 11 the total Capital and Recurrent Expenditures are shown jointly as against the level of revenue. The gap between total expenditures and revenue has in the past been financed by grants and loans; and the projections show the level at which these will need financing if steps are not taken to adjust revenues and/or expenditures. Particular note should be taken of the expenditures curve between 1976-1978. This rises steeply while revenue is falling.

On these bases financing through foreign grants and loans would need to increase sharply from 1976 onwards. Three questions arise:

- i. Is this a realistic assumption in the light of economic problems facing the countries from which such financial assistance has come in the past?

- ii. If optimistically, it is assumed that funds will be available: can the economy absorb the projected increase?
- iii. How will debts be funded or even physical capital maintained when revenue remains at its projected low level?

Comments and Recommendations

11. It is recommended that the existing document should be completed, carefully edited and published under the title "Draft Perspective Plan for Capital Financing and Investment in Montserrat". The Expert thinks that the completion can be achieved with existing resources in the Government.

12. There are certain main features which emerge from a study of the Montserrat economy:

- i. Agriculture is the main-stay of the economy;
- ii. There is, relatively, a large amount of unemployed labour; and
- iii. Government expenditure is approximately 50% in excess of Government revenue.

These are basic factors which must be taken into consideration in preparing a Development Plan.

13. In the long run what the Government can afford to implement and the level of establishment which it can maintain will depend primarily on the strength of the whole economy, both Public and Private sectors. Just as the private sector relates earnings to its expenditure so too the Government has to ensure that, within some time perspectives, the economy gets net returns from expenditure in the productive sectors over which it has control.

14. The key productive sector is agriculture and a meaningful and realistic approach must be adopted in attempting to remove constraints which prevent this sector from operating at its maximum. The country's unemployment problem must be viewed, in part, as a product of the under-utilization of the island's agricultural resource potential. It is obvious that in the existing situation planning for expansion is

identical with planning for growth in the Agricultural sector.

The Expert therefore recommends that the Government should prepare a long-term operational plan for the Agricultural sector. This should be the focal point of all development effort.

15. Such a plan must be based on a thorough examination of the country's existing agricultural resources and the potential which its soils and climate offer for the expansion of agricultural production. It must take into consideration the long-term problems which will arise from the high average age of the existing agricultural labour force and devise some means of encouraging young people, particularly males, to enter the industry.

16. Several Regional agencies have been working on various aspects of Montserrat's agricultural problems. It is recommended that some attempt should be made to pull together these individual efforts into an integrated plan with long-term objectives. For an exercise of this nature the Montserrat Government will require a full-time Economist and a small team of two or three support staff.

17. If such a planned approach to agriculture is acceptable to the Government, ECLA can perform the role of providing technical guidance for field work, plan formulation and preparation, and a framework for co-ordinating the work of the various Ministries and Agencies responsible for plan execution.

MAX IFILL
ECLA/POS
26 November 1976

List of Persons with whom Discussions were held

Mr. Austin Bramble
Chief Minister

Mr. K. Cassell
Permanent Secretary
Chief Minister's Office

Mr. J.D. Lewis
Deputy Financial Secretary

Mr. James Bass
Permanent Secretary
Ministry of Agriculture

Mr. Ivan Brown
Tourism Development

Mr. Fred Rompa
UNDP Tannery Expert

Miss Jill Hanna
Head
Statistics Department

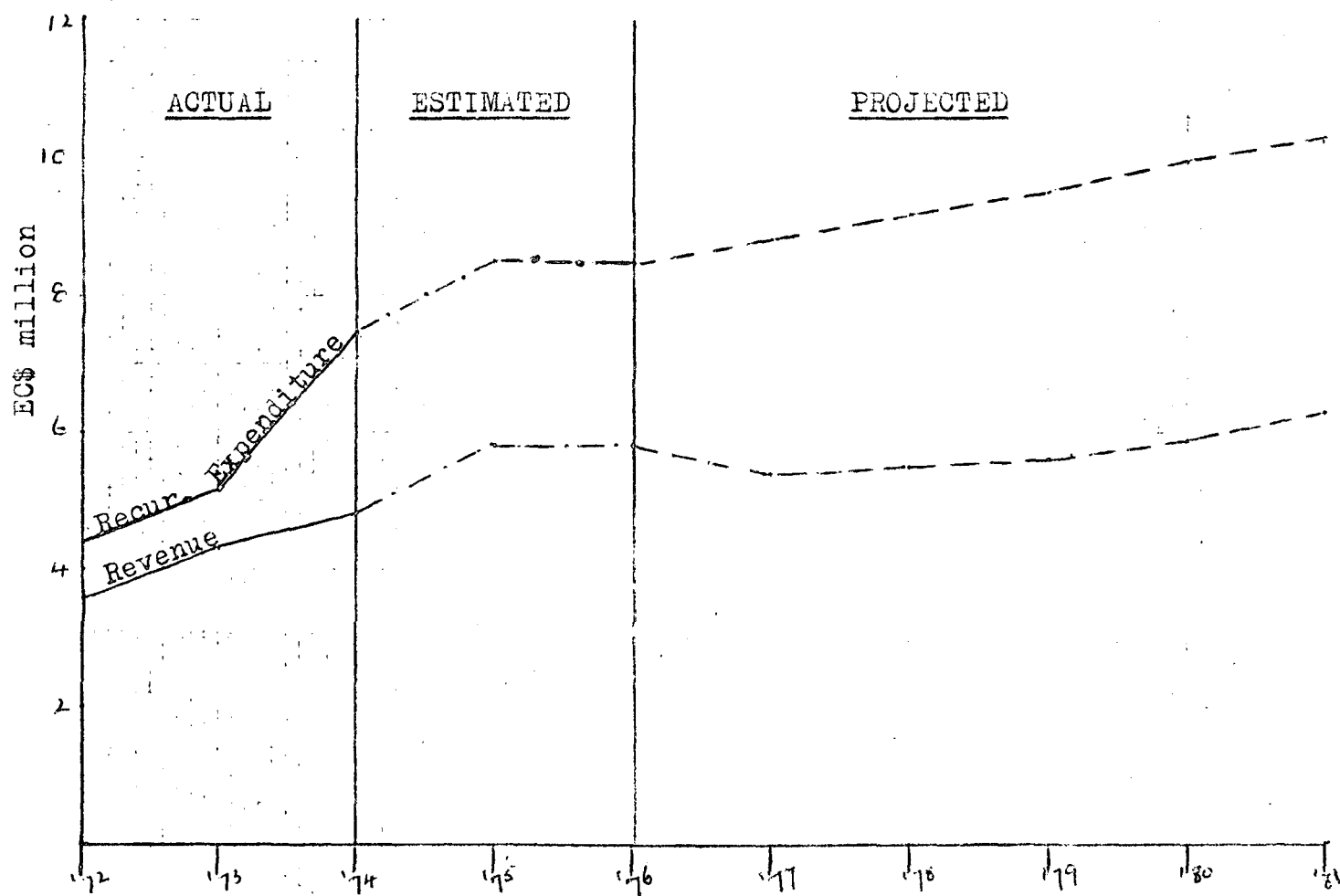
Mr. Barzey
Physical Planner

Extract from letter from
Mrs. P.A. Basset, Economist
to the Chief Minister
dated 2 September 1976

The parts which are unfinished as you can see from the table of Contents are the Chapter on Education and your Foreword address. Also some figures are missing from tables in Chapter 5 on Finance. Figures for capital and recurrent expenditure for Education, Health and Welfare can be included when the Education Chapter is completed. Also the cost of scholarships for training have been omitted but may be included when the costing exercise being carried out by the Ministry of Manpower and Administration is completed on the Report of the Commission of Training requirements for the Public Service. The Health Chapter is also incomplete. I have written to the Permanent Secretary for Education, Health and Welfare, requesting costings for capital and recurrent expenditure.

Figure 1

DIAGRAM SHOWING ACTUAL AND ESTIMATED
REVENUE AND RECURRENT EXPENDITURE IN
1972-76 WITH PROJECTED DEVELOPMENT
PROPOSALS TO 1981



Sources: Draft Development Plan for Montserrat 1977 - 81
Montserrat Estimates of Revenue and Expenditure 1976

Note: Revenue curve does not include British Grant-in-aid,
and projections to 1981 assume existing levels of taxation.